Retailing Innovations in a Globalizing Retail Market Environment

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Abstract

In recent years, the combination of economic growth and population growth in emerging markets and less developed markets has accelerated the progression of globalization of retailing and globalization by retailers. The challenges faced by global and globalizing retailers (retailers who currently have or intend to establish a market presence in mature markets, emerging markets and less developed markets) can be more daunting compared to those faced by firms in other industries such as automobiles, steel, and computers. Retailing innovations that are responsive to the characteristics of distinctive national markets and broader aggregations of markets such as mature, emerging and less developed markets are critical to the success of global and globalizing retailers. Against this backdrop, this paper focuses on retailing innovations in the context of a globalizing retailing environment. It attempts to shed insights into the characteristics of retailing innovations conducive to superior performance in distinctive national markets and across broader aggregations of markets. Towards this end, we first examine the environmental conditions of markets in different development stages, namely mature, emerging and less developed markets, and explore consumer based, industry based, and legal/regulatory based challenges faced by globalizing retailers in these markets. Second, we show how these challenges can be transformed into opportunities with retailing innovations. We conclude with a roadmap for future research and present propositions on future development with respect to retailing innovations in these markets.

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Introduction

Over the past several decades, modern retailing has become increasingly global in scope. The term globalization of retailing encompasses many interrelated developments such as (1) major retailers based on mature markets establishing a market presence in countries in different stages of economic development, (2) the supply chain undergirding the operations of retailers becoming increasingly global in scope, and (3) the diffusion of retailing innovations in various parts of the world. By and large, the retail market environment in numerous countries worldwide has been subject to the influence of globalization forces. The influence of these globalization forces is evident with regard to various aspects of retailing such as the retailing supply chain, product assortment, store format, and branding.

Alongside these changes, retailers that operate in a global retail market environment are also confronted with the fact that the structure of retail markets in various countries is commensurate with its stage of development. While in most western markets, retailers face challenges typical for mature markets, in emerging markets such as the BRIC- (Brazil, Russia, India, China) nations and other country markets with similar characteristics growing at and/or are projected to grow at significantly higher rates, they face a different set of challenges. Likewise, less developed markets such as many countries in Africa exhibit their own distinctive dynamic from the standpoint of retailing. While countries and markets across the globe show considerable heterogeneity in terms of the development stage – and associated structural and supply chain characteristics – one can broadly distinguish between three subgroups of retail markets: (1) mature markets such as in Western Europe and North

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Against this backdrop, the study focuses on retailing innovations in a globalizing retail market environment. The globalizing retailing environment comprised of differentially developed retail markets presents a number of challenges to both established retailers operating in multiple markets as well as local incumbents and presents interesting questions to researchers (Minten, Randriamarisoa, and Swinnen 2009). For instance, what might be viewed as a retailing innovation by customers in an emerging or less developed retail market environment may or may not be viewed as such by customers in a mature retail market (Peres, Muller, and Mahajan 2010). If this phenomenon is driven by the diffusion of concepts and ideas across markets this is not the major focus of our approach. Rather, our focus is on innovations per se (and not on diffusion of innovations across markets). Thus, we investigate innovation challenges that are specific for each of the three different global retail market subgroups. Examples of major dimensions of innovations in retailing that we incorporate are: retail formats, branding, assortment, process innovations, customer experience, information technology, new media, handling of payment and order fulfillment. The following vignettes shed insights into the above issue and other challenges as well as opportunities associated with studying innovations in retailing in a globalizing environment.

Retailing innovations in mature markets – challenges and opportunities

In mature markets such as North America, both the infrastructure for physical distribution of products and consumer purchasing power are largely in place. More often, the retailing innovation challenge in such markets is to replace goods, services, and experiences that are currently being consumed with innovative new goods, services and experiences as a path for growth. The rationale being, most basic needs of consumers are being more than adequately met and hence, retailers need to focus on how they can fulfill the higher-order needs of consumers (Lusch, Vargo, and O’Brien 2007; Pine and Gilmore 1998) and thereby grow. In other words, retailers have to think about how they can create superior value for consumers through innovations that go beyond satisfying basic needs. One example of a firm that does this quite successfully is Build-A-Bear, a retailing franchise based in the United States. The St. Louis-based company allows customers to create their own customized stuffed animals. Since its founding in 1997, the company has grown to $468m (2008) in revenue and operates 410 stores in the US and in other countries. Build-A-Bear offers customers an interactive “make your own stuffed animal” retail-entertainment experience. It thus combines customization of the product to individual consumers’ desires with the concept of entertainment and experience. In a market environment in which consumers are flooded with (exchangeable) physical products, the above retailing innovation, by providing customers with an entertaining experience while at the same time enabling them to co-create their own unique product bestows the firm with a competitive differentiation advantage.

Retailing innovations in emerging markets – challenges and opportunities

A major challenge faced by globalizing retailers based in mature markets in their attempts to sell to customers in emerging markets (particularly, to potential customers residing in rural areas) is the absence of a well developed and functioning retailing distribution network, mass media, transportation, and storage infrastructure (Goldman, Ramaswami, and Krider 2002; Samiee 1993). One approach to addressing these challenges is to increase the number of distributors in rural areas by helping people to start their own small store. Project Shakti, launched in 2000 as a partnership of Hindustan Unilever in India with non-governmental organizations, banks and the Indian government, entailed enlisting women residing in villages to become direct-to-consumer sales distributors for Unilever’s products such as laundry detergent, bath soap, toothpaste and shampoo. The company provides training in areas such as selling and bookkeeping to help rural residents become micro-entrepreneurs. After an initial investment in stock, usually through a loan from self-help groups or micro-finance banks facilitated by Hindustan Unilever, most Shakti entrepreneurs net a monthly profit of 700–1000 rupees (US$15–22). This, coupled with the earnings of a spouse working in the fields, typically doubles the household income. By the end of 2007, there were more than 45,000 Shakti entrepreneurs covering three million homes in over 100,000 villages in India. In other words, Project Shakti has enabled Hindustan Unilever to distribute its product offerings to millions of customers in rural India. Understandably, this is a retailing system innovation initiated by a manufacturer rather than a retailer. Nevertheless, it sheds insights into the kinds of retailing innovations that retailers may have to come up with in order to make inroads into rural markets in emerging and less developed markets. The retailing innovation does not entail a business operating from a standalone retail outlet, but from the home of a female micro-entrepreneur. Similar approaches have been applied by other big manufacturing companies. For example, Procter & Gamble has started to work with so-called “mom and pop” shops to overcome the distribution challenge in emerging markets by offering their products in small package sizes to fit on crowded shelves and by using a network of local representatives to keep the shops stocked (Economist April 17, 2010).

Retailing innovations in less developed markets – challenges and opportunities

In less developed markets, retailing innovations often entail being responsive to specific local conditions (Goldman 1974; Kaynak and Cavusgil 1982; Minten 2008). For instance, a broad cross-section of consumers in a number of less developed countries in Africa do not have bank accounts due to the combined effect of their low income levels and a sparse network of bank branches and ATMs. However, mobile phone service providers have made considerable inroads and ownership of mobile phones
is on the rise. This environmental condition has provided the impetus for retailing innovations such as use of mobile phones to facilitate retail transactions. Case in point is M-Pesa (M for mobile, pesa in Swahili means money), a mobile-phone based money transfer service that was developed by Vodafone and sponsored by the UK-based Department for International Development. M-Pesa enables retail payments via mobile phone in lieu of physical currency at participating retail outlets, and even money transfer between individuals. Here again, we have an illustration of a retailing innovation but initiated by a mobile phone service provider and not a traditional retailer, but nevertheless seems to be having a transformative effect on the retailing landscape.

In general, our discussion highlights the relevance of a contingency perspective for studying innovations in retailing (Alexander, Shaw, and Curth 2005; Goldman, Krider, and Ramaswami 1999; Goldman, Ramaswami, and Krider 2002; Minten 2008). The focus of our paper is on retailing innovations that are responsive to the stage of development of specific markets, and focuses on the following research questions:

- How should innovation in a global retail market environment be conceptualized?
- What are some major environmental challenges faced by retailers competing in mature markets, emerging markets and less developed markets?
- Which innovation challenges do these environmental challenges predicate?
- How can retailers address these innovation challenges effectively and thereby transform them into opportunities?

In order to address these questions, we first conceptualize the components of the retailing innovation agenda by the stage of development of markets across the globe. Towards this end, we identify specific innovation challenges which are linked to the environmental conditions. Next, we explore how these innovation challenges can be addressed effectively. Finally, we develop a set of research implications and questions for future research.

Also, it is important to note that for the most part we do not investigate the (related) topic of diffusion of innovations across regions. In this paper, our focus is on innovations in retailing from the perspective of innovations geared to specific markets and not merely the adoption of specific aspects of retailing practice in a country market that originated elsewhere. For example, a number of retailing processes, technologies, formats, etc., that were initially rolled out in a particular country or a region (a cluster of countries) tend to be subsequently launched in other countries.

Global market types and retailing innovation processes: conceptualization of the dimensions

In his influential article on the Wheel of Retailing, Hollander (1960) pointed out that new types of retailing follow evolutionary paths, and discussed the possibility of a “natural law of retailing” in the evolution of innovations in retailing. Although focused exclusively on retail formats, his work was one of the first to systematically address innovations in retailing. But despite the fact that innovations in retailing have been investigated frequently over the years, to the best of our knowledge, there is a dearth of literature that provides a comprehensive overview of aspects of innovations in retailing, especially in the context of environmental factors that retailers are confronted with in the global arena in which they operate.

Global market types

As noted earlier, with regard to the study of issues relating to the retailing innovations in a globalizing retail market environment, the market context in which the innovation takes place must be borne in mind. Retailing is a business that entails the firm interacting with the customers it serves on an ongoing basis. Customers’ attitudes and behaviors both influence and are influenced by the actions of competing retailers in a marketplace. Additionally, whether a good, service, process, business model or organizational structure is considered as novel also depends on its degree of newness to both the consumers and the firm (Hauser and Urban 1977). In other words, what is seen as an innovation in one region may already be a common practice in some other parts of the world. However, as pointed out earlier, our focus is on innovations per se and not diffusion of innovations. With respect to context, we broadly distinguish between three types of markets based on their stage of development – mature, emerging, and less developed markets.

Most of the extant literature on retailing and retailing innovations is in the context of developed or mature markets (Goldman, Ramaswami, and Krider 2002; Kacker 1988). Geographically, most of North America, Western Europe and parts of Asia constitute mature markets. However, selected urban districts in emerging markets also belong in this group (e.g., cities such as Hong Kong and Shanghai, and city states such as Singapore). Emerging markets refer to countries and regions experiencing substantial and rapid economic growth and industrialization that are likely to emerge in the future as mature markets (Gielens and Dekimpe 2007). For purposes of this paper, emerging economies refer to regions of the world experiencing rapid informationization under conditions of limited or partial industrialization (Center for Knowledge Societies 2008). In other words, consumers in these markets are informed about and exposed to goods and services from mature markets, while still conforming to certain traditional habits, attitudes, and structures. Rapid urbanization is one of the reasons for the increased interest among retailers based in mature markets in emerging markets. The BRIC countries are widely viewed as the largest emerging markets. Other important emerging markets include Mexico, Poland, South Africa, South Korea, and Turkey. The total population of these emerging countries considerably exceeds the population of developed countries, making these regions particularly attractive for mature market-based retailers and retailing innovations that are responsive to the distinctive characteristics of these markets.

While we exclude least developed countries (i.e., regions suffering from extreme poverty and lacking political as well as social stability) from the scope of our paper, we do address
innovations in retailing in the context of less developed countries, sometimes referred to as the “base of the pyramid” country markets (Anderson and Markides 2007; Goldman 1981). These economies are characterized by low per-capita income, not being fully industrialized, and lacking a sophisticated legal or financial systems. Whereas in a global context, less developed countries tend to be generally viewed as base of the pyramid markets, countries in emerging markets are also characterized by the presence of a sizeable base of the pyramid market segment, besides more affluent market segments.

In an attempt to highlight the potential for retailing innovations in mature, emerging and less developed markets, we draw attention to Schumpeter (1943, p. 10) who described drivers of innovations as follows “[...] the fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers’ goods, the new methods of production or transportation, the new markets, the new forces of industrial organization that capital enterprise creates.” Though Schumpeter did not explicitly consider the retailing context, his general proposition that consumer based, industry based and market based contexts affect the success and failure of innovations closely corresponds with the major environmental factors examined in this paper. Additionally, contingency theory is helpful in recognizing environmental characteristics that influence innovations, such as environmental stability, complexity, diversity, and hostility (Galbraith and Nathanson 1978). Both, classic studies (e.g., Lawrence and Lorsch 1969; Mintzberg 1979), as well as more recent studies (e.g. Atuahene-Gima 2007; Burgess and Steenkamp 2006; Tellis, Prabhu, and Chandy 2009) provide empirical credence for the role of environmental context as a major driver of organizational design in general, and innovations in particular.

A review of relevant literature and discussions with industry experts suggest three broad categories of environmental factors – consumer based, industry based, and legal and regulatory based – present major innovation related challenges and opportunities to retailers:

- **Consumer based** challenges refer to innovation challenges and opportunities related to differences in the characteristics of customers in the mature, emerging and less developed markets. The fact that the success of an innovation is dependent on its ability to address the current needs of customers better than existing offerings, or address the latent needs of customers, highlights the importance of involving customers in developing innovations. Many companies have recognized that getting customers engaged in innovation processes is a crucial step (Verhoef, Reinartz, and Krafft 2010).

- **Industry based** challenges refer to innovation challenges and opportunities related to differences in the nature of competition, technology and suppliers in mature, emerging and less developed markets. The industry context, particularly the intensity of competition in a market and supply chain management, has been identified as a major driver of success versus failure in innovation management (Ganesan et al. 2009; Scholfield 1993). Similarly, technological developments are at the very heart of innovations, and have been identified as a major force behind innovations in retailing (Verhoef et al. 2010).

- **Legal and regulatory based** challenges refer to innovation challenges and opportunities related to differences in governance and regulations in the different markets. As discussed in writings on national innovation systems (Nelson 1993) and the competitive advantage of nations (Porter 1990), regulatory constraints and the stability or volatility of political and legal systems strongly affect innovativeness and R&D performance. The role of the legal environment has also been recognized by governments, particularly those which view innovativeness as a major objective. For example, in order to learn more about major conditions for innovation to flourish, the European Union conducts an annual review of innovation performance of all EU member countries. Based on this review, a scoreboard assessing the innovation performance of all EU member countries is made. This scoreboard serves as a benchmark and to identify barriers to innovation in the legal systems of individual countries.

These environmental factors drive retailers’ efforts to better serve their customers in different types of markets through innovations and thereby enhance their performance.

In the next section, we focus on retailing innovations in the context of market types (mature, emerging and less developed) and environmental challenges (consumer based, industry based, and legal and regulatory based) in each of these markets. This is preceded by a brief overview of major dimensions of innovations in retailing explored in extant literature – retail formats, branding, assortment, process innovations, customer experience, information technology, new media, handling of payment and order fulfillment as major dimensions of retailing innovations.

**Retail formats** have been investigated as an important dimension of innovations in retailing. Among others, formats such as supermarkets were considered as innovations when they were first introduced in markets that are currently viewed as mature retail markets. Thus, the development of new retail formats based on the circumstances especially in emerging markets and less developed markets represents a promising source of retailing innovations.

The **importance of branding** as a dimension of retailing innovation encompassing store brands and private labels has been discussed in literature (Steenkamp and Dekimpe 1997). Retailers’ strategic decisions such as single versus multiple private label brand names, their positioning, and differentiation within and across market environments is subsumed under branding as a dimension of innovations in retailing (Ailawadi and Keller 2004). Notwithstanding some overlap with retail format and branding, specifics of assortment such as variety, stock ownership, and speed of replenishment have also been identified as potential ways for a retailer to differentiate itself from competitors (Davidson, Bates, and Bass 1976, p. 91).

**Process innovations** such as market research and supply chain management also constitute potential avenues for retailers to achieving a competitive advantage. For example, new forms of collaboration between manufacturers and retailers in sup-
ply chain management such as efficient consumer response (ECR) and category management represent major innovations in retailing pioneered by companies such as Walmart in the US and Metro in Europe (Huchzermeier and Iyer 2010). Furthermore, new forms of market research and marketing intelligence generation such as UPC scanner data based, customer loyalty program based and customer experience management based activities (Burke 2010) represent innovations in retailing. Other important dimensions of retailing innovation include those in the realm of customer experience, such as innovations based on store atmosphere, expertise and knowledge of front-end staff, information technology and new media enabled retailing innovations (Mathwick, Malhotra, and Rigdon 2001; Pine and Gilmore 1998), and the handling of payment (Avlonitis and Papastathopoulou 2000).

Finally, retail goods and services have to be delivered. While consumers in mature markets are faced with problems such as lack of time, lack of parking space in cities, and ensuring that items purchased over the Internet are delivered in a timely manner, consumers in less developed countries often lack any means of transportation. In both cases, innovations constitute less expensive and/or timely ways of order fulfillment.

### Innovation challenges predicated by environmental challenges

In this section, we examine the relevance of various retail environment factors (consumer based challenges, industry based challenges, and legal/regulatory based challenges) to retailing innovations in different types of markets. Tables 1–3 provide illustrative examples of retail challenges and innovation opportunities across the three types of markets in the context of consumer, industry and legal/regulatory based challenges. Historically, retail firms have innovated in their home country (typically in markets that one might currently characterize as mature markets) and then rolled out these innovations in other countries. Increasingly however, the growth of emerging market economies such as India and China has forced retailers to modify their innovation strategies in order to be responsive to the unique challenges posed and opportunities presented by these markets. In the broader context of innovation literature, this has spurred debate and discussion on trickle-down versus trickle-up innovation (trickle-up or reverse innovations refer to successful innovations developed in emerging markets by multinational enterprises being subsequently launched in mature

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Consumer based challenges

- Rising middle income class
- Increasing urbanization, Mega-Cities
- Younger class of population
- Higher density of population

Industry based challenges

Legal/regulatory based challenges

- Liberalized government regulations
- Inter-state rules and regulations
- Stability in governments – constantly changing government policies

Table 2
Innovations in retailing in emerging markets.

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<th>Environmental climate</th>
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<th>Potential dimensions of retailing innovation</th>
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<td>• Gathering more comprehensive market intelligence reports</td>
<td>• Business agility in adapting to changing policies</td>
<td>• Globus (India) – increased responsiveness</td>
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</tbody>
</table>

Industry based challenges

Competition

- Large companies diversifying into retail industry
- Presence of a large unorganized retail sector
- International companies entering the markets

Suppliers

- Poor transportation infrastructure
- Limited access to supplier network

Technology

- Limited applications of IT
- Lower penetration of credit cards
- Leapfrogging generations of technology, relatively high interest in technology

mature markets in which they compete) (Immelt, Govindarajan, and Trimble 2009).

Mature markets

Consumer based innovation challenges

Many of the innovation challenges faced by retailers in mature markets are customer-centric in the sense that they require designing retail processes and products to better match (shifting) customer needs (Shah et al. 2006). A first cluster of consumer based challenges in mature markets relates to changing demographics and life-style driven consumer requirements, such as those of an increasing proportion of elderly citizens in markets such as Western Europe and Japan. This trend implies retailing innovations that are responsive to the mobility and shopping needs of this cluster. For example, consumers may wish to have easy access to both health and leisure facilities, and perhaps even residential service offerings (Lumpkin and Hunt 1989). Retailers have opportunities for innovations in these areas by integrating different goods and services and adapting retail processes to meet the needs of older people closer to their homes. With respect to product development, further exploiting heterogeneity in tastes also offers opportunities for innovation. Full personalization or customization of products and retail processes is an extreme example of leveraging such heterogeneity. For example, online apparel retailers such as Lands’ End have successfully nurtured customer loyalty by offering customized clothing options (Piccoli, Bas, and Ives 2003).

A second cluster of consumer based challenges involves the touch-point of information technology (IT) and consumer needs. Mobile and online information technology make consumers more and more flexible in terms of where and how they wish to access retailer information and where and how to purchase products (Kleijnen, de Ruyter, and Wetzels 2007; Lyons 2009). In addition, IT-enabled tailored (e.g., location specific) retail information and offerings are increasingly becoming the norm (e.g., Nikolov and Shukla 2009). Furthermore, IT allows consumers to interact closely with one another which in turn calls
for retailers to monitor consumer-to-consumer communications and respond to the market intelligence generated. These environmental trends pose important innovation challenges to retailers and create potential opportunities for innovations in terms of: (a) developing IT applications such as real-time listening, co-creation tools (Piccoli, Bass, and Ives 2003), (b) supportive online purchase environments (Xiao and Benbasat 2007), and (c) location based information services (e.g., applying RFID technology) (Gaukler, Seifert, and Hausman 2007). Additionally, the integration of multiple channels involving IT and non-IT enabled environments is another area of innovation opportunity (Verhoef, Neslin, and Vroomen 2007).

**Industry based challenges**

Competition between retailers in mature markets tends to be relatively intense. Relatively low levels of government protectionism and a strong legal system, high-level market information and a strong physical infrastructure often leads to competition between global retail chains in these markets. In addition to the verticalization of manufacturers, sourcing of products is also relatively flexible because many suppliers are available. Thus, retailers’ innovation opportunities are mainly dependent on their ability to design flexible supply chains that can effectively respond to changes in competitive market conditions (e.g. Zara) or to develop new non-imitable products (Ganesan et al. 2009). Retailers in mature markets also increasingly extend into the direction of new non-traditional services such as healthcare (Malvey and Fottler 2006) and financial products (Alexander and Pollard 2000). This challenges them to compete in new markets characterized by new demands, product-market boundaries, and regulations.

**Legal/regulatory based challenges**

Retailers in mature markets face a number of legal and regulation based challenges. In particular, it is likely that governments in mature markets will increasingly place demands on the environmental sustainability of retail processes and products. For example, the U.S. Environmental Protection Agency sets limits on cadmium in toy jewelry, owing to the metal’s health hazard implications. This has resulted in retailers such as Dress Barn Inc. and Claire’s Boutiques Inc. recalling necklaces, earrings and bracelets after finding the products contained cadmium.5 Thus, designing sustainable products and processes constitutes an opportunity for innovations in retailing. For exam-

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ple, Sainsbury’s, a UK retailer, recently introduced electric urban home-shopping delivery vans to promote greener retail operations. In a broader sense, retailers may also be able to partner with local governments in finding regional solutions to develop innovative ways to promote sustainable local growth in a dynamic and open world economy (Porter 1998).

Emerging markets

Consumer based challenges

Despite recent economic advances, the average consumer in emerging markets tends to be price sensitive (Dawar and Chattopadhyay 2002). However, the economic growth in emerging markets is also creating a growing, relatively wealthy middle class. This creates locally attractive retail markets, which has lured major international retailers such as Carrefour and Walmart into these regions. This effect is strongest in the metropolitan areas with their large population density. Given the greater price sensitivity coupled with the wide income disparity among individuals and households in emerging markets, retailers are faced with the challenge of effectively targeting different customer groups (market segments) within these national markets (Burgess 2003). Given this difficult task to simultaneously serve consumers at the bottom, in the middle and at the top of the income pyramid, companies might focus on those consumers that become more affluent and thus move up the income pyramid. An innovation that retailers have been successful with in emerging markets is a tiered pricing structure that caters to various market segments. For example, the Beijing Xidan Department Store uses a configuration that is tiered in its design structure, and caters to consumers of various income segments. The premium and more expensive brands are located on the higher floors of the store, and the less expensive brands on the lower floors. Innovations in product size variations can be more effective in emerging markets than in mature markets. Such innovations by retailers often entail product adaptations commensurate with the relatively lower income, lack of storage facilities, and different purchase habits of customers in these markets. Case in point is product adaptations in response to more frequent purchases, but in smaller quantities by customers in emerging markets (for example, kirana outlets or small grocery stores in India).

Emerging markets also have grown to be relatively high on technology innovativeness, as a consequence of skipping one or more generations of technology and the associated sunk infrastructure costs. In the last decades, erstwhile technology-related barriers have gradually receded with the growth of globalization and the increasing interest of multinational companies. The changing consumer preferences also have a great impact on retailers’ innovation strategies. Consumer preferences are often affected by changing ‘trends’ in other (developed) countries. For instance, in the 1990s, India saw a sudden spurt in ‘western’ influence on clothing. Consumers were rapidly shifting their preferences from the traditional attire to more ‘modern’ apparel (such as jeans and t-shirts). Globus, a popular clothing retailer in India, underwent a complete transformation in a very short time in order to adjust to this change in consumer preferences.

Industry based challenges

A major obstacle that retail firms face when attempting to enter emerging markets is the competition from local players. Overcoming this hurdle can take years when the host country brands are supported by the local government. Additionally, the retailing structure in emerging markets is characterized by a relatively large unorganized sector and many retailers are of small scale and unregistered. In South America, large retailers face stiff competition from the smaller players. Such small retailers have been shown to have greater resilience against the larger retailing chains (Humphrey 2007), a phenomenon which threatens the existence of retail chains in emerging economies because it is more difficult to gain large market shares in these markets.

The reason for this dominance of smaller retailers is twofold. First, the sheer number of smaller businesses in emerging countries is much larger than the number of retail chains that have a presence in these countries. Second, consumers (in emerging economies) often tend to rely on ‘local’ produce which is stocked in the smaller retail stores rather than in those operated by chains, a phenomenon which is becoming more and more common (Gilmour and Gale 2002). As a result, modern retail chains only account for one third of consumer goods sales in China and only one fifth in India (Economist April 17, 2010). This creates opportunities for retailers in these markets to innovate in optimal shelf space usage, product assortment, and marketing expenditures to accommodate ‘local’ produce as well.

The next link in the retail chain is constituted by the supply and distribution networks. In order to ensure profitability, firms must have access to a reliable supplier network. In the case of emerging economies, retailers faced with a number of challenges in establishing reliable supplier networks have innovated in different ways. Some retailers have created their own supplier networks. For example, TOPS, a leading food retailer in Thailand, invested in the development of an exclusive fresh-produce supply chain and distribution center in order to create a shorter and more streamlined supply network in the country (Hagen 2002).

Legal/regulatory based challenges

Retailing in emerging markets is generally more heavily influenced by the host country’s government than in mature markets. For example, Brazil’s substandard growth in the 1980s spurred the government to introduce heavy structural reforms, especially in the retailing sector. The reforms included trade liberalization and opening of markets. Henisz and Zelner (2010) observe the importance of politics and governmental regulation in emerging economies and prescribe a direct political approach to investing in emerging markets. In the case of India, the trade liberalization reforms of 1991 have proven to be a boon to

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large-scale retailers. The country has seen unprecedented growth in the fields of retailing, manufacturing, production and agriculture. In 2006, the Government of India opened the retail industry to the world by allowing up to 51% foreign direct investment (FDI) through the single-brand retail route. Following this change in the retailing climate, FDI inflows between April 2000 and April 2010 in single-brand retail trading stood at USD 194.69 million, according to the Department of Industrial Policy and Promotion (DIPP), Government of India. These inflows are expected to drive retail growth in India, primarily from the rural markets.

Takada and Jain (1991) also found that the legal system and governmental issues play a major role in the innovation process. Therefore, firms usually develop long-term relationships with host countries in order to negotiate better agreements regarding land, labor, and taxes. A major challenge that retailers face when investing in emerging economies is changes in policy in the aftermath of changes in the country's leadership. Retailers have employed a range of innovative strategies in the face of legal and regulatory challenges. Although entering into strategic alliances with domestic firms is a pervasive practice in the manufacturing sector, it is relatively less pervasive in the retailing context. Since existing FDI regulations in India do not permit foreign retailers with multiple brands, Walmart's joint venture with Bharti Enterprises in India is an example of retailers using innovative strategies to overcome regulatory challenges. Joint ventures as a mode of entry into emerging markets by retailers based in mature markets enables them to leverage the capabilities of the domestic alliance partner to manage relations with the local government as well as to offer product assortments better suited to local market conditions.

Less developed markets

Consumer-based challenges

Less developed markets are often characterized by low domestic production and high inflationary pressure, resulting in lower per capita income. Further, the distribution of wealth in less developed markets tends to be more heavily skewed towards the extremes than in emerging markets, implying even starker distinctions in income levels (Bagchi 1982). Some retailers have responded to this environmental condition by creating product offerings catering specifically to either one of these segments (Anderson and Markides 2007). For instance, retailers aim to serve the relatively small affluent segment of the population by offering premium-priced products and/or the relatively large poorer segment of the population with lower-priced product offerings. Also, the banking sector in these markets tends to be comparatively rudimentary. Many consumers do not have bank accounts or credit cards. Therefore, most transactions entail the use of currency. This can have an adverse impact on retailers in numerous ways. First, without a financial system to back them up, retailers cannot comfortably credit consumer transactions for future sales. Second, the total size of the sale is always limited by the amount of money the consumer is currently carrying. Further, both consumers and retailers are potential victims of frequent burglaries due to the breakdown of law and order. In order to address these consumer-based challenges, retailers in less developed markets are increasingly resorting to technological innovations that enable cashless transactions, even in the absence of bank accounts (see the M-Pesa example in an earlier section of the paper).

Industry-based challenges

In less developed markets, the poor infrastructure and lack of basic amenities imply that retail outlets need to be located close to where consumers live. Therefore, typically many small retailers operate close to the consumers' homes and as a consequence a large share of the competition in retail markets in these areas is relatively unorganized and diffused. An additional implication of the poor infrastructure facilities is that it creates a supply chain bottleneck. Transport and communication facilities in less developed markets severely limit the savings in inventory costs and the effectiveness of sales that retailers operating in more developed mature markets are able to achieve through just-in-time delivery. Retailers in these markets have innovated by stockpiling inventory through large warehouses that can store relatively more products than is typically the case in more developed economies. Thus, where innovations in retail supply chain management in saturated markets have typically focused on keeping stocks as low as possible, in less developed markets the direction of innovation may be reversed. Retailers for example may choose to extensively stock inventory to be able to maintain a continuous supply of products at their retail facings.

On the supplier front, retailers often face poor, disjointed distribution networks in less developed markets. Since the number of firms in each stratum is very limited, retailers have little say in dealer preferences and distributor agreements. Retailers in some areas have therefore invested in backward integration, producing a number of the goods they sell either themselves or through franchises. For example, Fast Retailing Co. from Japan is working with Grameen Bank group in Bangladesh to provide clothes priced at around $1. To do so, the firm is planning to use locally procured materials and local production, as well as to mobilize women receiving small loans from the Grameen Bank to build up a sales network. This is another innovation that is illustrative of differences between mature and less developed markets.

Innovations in just-in-time retail delivery strategies and supplier partnerships that have emerged in mature markets may not be suitable for the less reliable market conditions in less developed markets. This has pressured retailers in these markets to innovate by bringing supplier tasks within their own operations allowing them to create a more stable basis to meet consumer demand.

The market-level dynamics in less developed markets provide a contrast relative to mature and emerging markets. Due to the political, economic, infrastructural and consumer level complexities in these environments and reduced possibilities for economic law enforcement, producers may form cartels and ‘territories’ among themselves, giving rise to a self-blocking monopolistic system of producers (Clarke and Evenett 2003; Connor 2007). Additionally, the legal systems in these markets
do not always have stringent anti-trust laws. Entering these markets entails retailers having to break through cartel barriers. New entrants have for example resorted to opening retail outlets in the form of large chains that are well spread throughout a region of dominance, thereby simultaneously employing all members of a competing cartel.

**Legal/regulatory based challenges**

In less developed markets characterized by frequent changes in governments, the political system is generally less conducive to making investments in the infrastructure, public distribution systems, etc. The governments in some less developed markets have placed strong restrictions on international trade. Foreign subsidies to retailers from developed countries and NGOs offering goods and services in these markets have sometimes enabled them to overcome the barriers of closed markets. In these cases, retailers have been able to establish a presence by passing on these subsidies to the consumers (Anderson and Billou 2007). For example, producers and retailers of agricultural products such as seeds and fertilizers enjoy both domestic and international subsidies in West Africa.

With the lack of basic amenities such as food and healthcare, the socio-political climate in less developed nations significantly weakens the financial system and trade in these regions is largely driven by trust and personal relationships. Retailers in these markets are, therefore faced with a paradoxical situation of having to make heavy investments in an environment with a high risk of value destruction due to policy changes of the ruling governments. As a result, retailers such as the Oriental Weavers’ Company in Egypt have innovated by resorting to personal and direct selling efforts when marketing their products. Personal selling has the advantage of low fixed costs in terms of long-term assets such as physical retail outlets, while simultaneously creating a fabric of trust with consumers through face-to-face transactions. The high cost of human resources in developed nations limits the degree to which organizations in these markets can invest in direct personal selling techniques. Firms in less developed markets have leveraged on the availability of less expensive human labor to train and deploy a large direct sales force.

**Implications for future research**

**Mature markets**

A key characteristic of mature retail markets is the (over) abundant availability of data regarding customers. Depending on context and firm activities, these data comprise the gamut of behavior, demographics, attitudes, marketing resource allocation – all at an individual level. For example, Walmart handles more than 1 million customer transactions every hour, accumulating data totaling more than 2.5 petabytes – the equivalent of 167 times the number of books in America’s Library of Congress. Accordingly, the challenge that most retailers face is not the lack of access to specific data but rather the inability to transform available data into decision-relevant information and insights. Illustrative of a firm’s information technology capabilities as a basis for innovations in retailing processes is Nordstrom’s seamless integration of inventory on specific products at the retailer’s web warehouse with inventory of the same products at each of its bricks-and-mortar stores. Thus, when a consumer shops online for a particular item and the firm is out of stock at its web warehouse, the system checks whether the product is available at any of its physical stores. If that is the case, the transaction is completed and the product shipped from the store which has the product available in stock. Following the successful integration of the inventory of various SKUs at individual stores with the inventory of the SKUs at the online store, the firm’s inventory turnover is reported to have touched a five-year high in 2009. As a consequence of such IT enabled, enhanced process capabilities, Nordstrom is reported to have achieved a significant increase in the percentage of customers who bought merchandise after searching for an item at its online store (Clifford 2010).

The implication for retailers is developing new data analysis capabilities. Data analytics capabilities driven analysis of vast amounts of data have the potential to provide insights to retailers into opportunities for retailing innovation. Innovation therefore needs to take place at the organizational level as well as at the functional level. At the organizational level, building up a strong analytical and customer insight function is the key (Atuahene-Gima 2002). At the functional level, firms need to implement competencies with respect to the relevant data sources such as scanner panel data, multichannel data, card program data, online data and data from RFID tracking devices (e.g., Manchanda et al. 2006; Urban and Hauser 2004).

Whereas many retailers – even in mature economies – have been focusing on maximizing supply chain efficiencies, competing successfully on strong customer understanding has been more of an exception than the norm. Consequently, innovation in this domain has both exploitative as well as exploratory characteristics (Benner and Tushman 2002). Exploitative in the sense that many of the associated activities build on existing technological trajectories and involve improvements in existing activities, and exploratory in the sense that certain activities use new hitherto non-existing types of data and potentially might lead to business models that focus on different product-market domains. Examples of new data refer to many online and social network contexts.

Related research questions are: How can retailers take advantage of consumer-to-consumer (C2C) communication and observations of their behavior in online social networks (e.g., if they become fans of a company profile on Facebook)? Examples of new business models refer to retail formats that leverage long-tails (Anderson 2004) or new Internet based formats such as group buying or private sales (Grewal and Levy 2009). From a research perspective, a question that arises is how retailers can take advantage of the long-tail not only in the online environment but also in the offline, while recognizing that the ‘long-tail’ effect is uneven across product categories (Elberse 2008).

Another area of potential research is reexamining the directionality of cross-national lead–lag effects with respect to diffusion of innovation. While it is considered to be the rule that
innovations usually are developed and applied first in mature markets and then transferred to emerging and less developed country markets, as discussed in earlier sections of this paper, some of the most recent and novel innovations in retailing are being developed and applied first in either emerging or less developed country markets. A likely driver of this trend is the growing interest among major retailers in countries with the highest growth rates and/or future growth potential. Interestingly, preliminary evidence suggests that successful innovations from less developed countries (such as M-pesa) are later adopted in mature markets. In other words, traditional views of lead and lag countries in the diffusion of innovations now warrant reexamination in the evolving global retail market environment. In addition, it also calls for new models in international diffusion and adoption of retailing innovations. Such models, rather than assuming that innovations “cascade down” from headquarters in developed countries initially to emerging country markets and subsequently to less-developed country markets, must allow for bi-directional dispersions of innovations (Kumar and Krishnan 2002). Emerging literature on reverse innovation (Immelt et al. 2009) also point to the need for research along these lines. There is thus also a need for empirical insights into how innovations in retailing occur and disperse across countries.

**Emerging markets**

As noted earlier, emerging markets such as India and China are characterized by large segments of the population that fall under different income groups. This presents a challenge as well as an opportunity for retailers to serve customers spanning multiple layers of the income pyramid. Case in point, Prahalad (2006), in a seminal article titled, “The Innovation Sandbox,” identified four criteria that innovations for the base of the pyramid markets must meet in order to be successful (i.e., have a major impact in serving the base of the pyramid markets). The innovation must: (1) result in a good or service of world-class quality, (2) achieve a significant price reduction – at least 90 percent off the cost of a comparable good or service in the West, (3) be scalable – be able to be produced, marketed, and used in many locales and circumstances, and (4) be affordable to potential customers at the bottom of the economic pyramid – people with the lowest levels of income in any given society.

While these criteria for innovations for the base of pyramid markets are pertinent to goods and services, the exemplars on low cost retailing innovations in the health care services sector in India (Narayana Hrudayalaya Cardiac Care Center, Aravind Eye Care, and the Jaipur Foot) highlighted by Prahalad are insightful from the standpoint of avenues for future research. In an article focused on Aravind Eye Care, Rubin (2001) draws attention to the hospital’s success at substantially lowering costs in every area of its service through various product and process innovations. For instance, he notes that while it costs hospitals in the United States about $1650 to perform a cataract operation, the cost at Aravind Eye Care is about $10. Among the innovations that have enabled Aravind to achieve such substantial cost reductions is putting two or more patients in an operating room at the same time. Although in some countries this may not be permitted, according to the article, Aravind has not experienced any problems with infections by doing so. The size of the market for affordable health care services in emerging markets and less developed markets points to research focusing on innovations in the delivery of health care services under the broader rubric of services retailing (retailing of intangibles-dominant products) as an important avenue for future research.

Yet another example of a service retailing innovation in India is the HP i-community Mobile Photo Studio Project that enables female entrepreneurs to leverage HP’s high-resolution digital photography and printing services in ways that are new and impactful in rural areas. By providing on-the-spot processing to rural residents at a modest price, with equipment leased from HP and consumables purchased at market rate from HP, many of the entrepreneurs are reported to have been able to double their monthly family income. In a sense, Hindustan Lever’s Project Shakti initiative in India and HP’s i-community Mobile Photo Studio Project defy the concept of retailing innovation to the extent that there is neither a physical location nor a web address at which customers transact with the retailer.

Teece (1986, p. 287) describes a regime of appropriability as the environmental factors, excluding firm and market structure related factors, that govern an innovator’s ability to capture the profits generated by an innovation. He distinguishes between two key dimensions of appropriability – the nature of the technology (product, process, tacit, and codified) and the efficacy of legal mechanisms of protection (patents, copyrights, and trade secrets). Teece notes that when imitation is easy, markets do not work well, and profits from innovation may accrue to owners of certain complementary assets, rather than to developers of the intellectual property. This, as he points out, highlights the need for the innovating firm to establish a prior position in these complementary assets. On the one hand, this issue is particularly pertinent in the context of innovations in retailing in light of the low barriers to entry into the retailing sector and ease of imitation of a number of retailing innovations (e.g. store format, product assortment, and price points). On the other hand, it is also conceivable that under certain environmental and organizational contexts, the innovating firm may be more inclined to facilitate emulation of its innovation through imitation by other organizations that are either its direct competitors or non-competitors. This is likely to be the case with retailing innovations designed to reach the base of the pyramid markets. Facilitating imitation of an innovation rather than erecting deterrents is likely to be the norm when a retailing innovation, whether in the goods or services sectors designed to reach the base of the pyramid markets is a cooperative venture involving both for-profit and not-for-profit organizations.

These considerations point to the following as research questions that merit inquiry: (1) How do (how can) retailers protect their retailing innovations from being appropriated? (2) How do (how can) pioneers of retailing innovations in emerging markets and less developed markets that are primarily targeted at the base of the pyramid markets facilitate diffusion of such innovations for the larger benefit of customers in these markets?
Less developed markets

One central innovation challenge to retailers in less developed markets is to design product and supply chain strategies to serve the population groups that differ at a very basic level in terms of income, accessibility, and preferences. Sizeable segments of the population have very low incomes and many of them are hard to reach through the available distribution and communication channels (e.g., those living in low income – rural areas). Other segments are somewhat easier to reach but still require completely different dedicated distribution and communication for example through many small local stores (e.g., low income – urban populations). At the same time there is also a segment of consumers who have a very high income (e.g., the highest income – urban population) and expectations comparable to the expectations of consumers in mature markets, who can be targeted with marketing communications similar to those employed in mature markets and a small number of high-end stores.

Future research to develop a better understanding of the different segments can be particularly promising in providing guidance for future retailing innovations. In particular such research could address questions such as the following: (1) What are some critical distinguishing and targetable features of the different segments in less developed markets that tie in with clearly different behaviors and needs?, (2) How are these behaviors and needs of the different segments likely to shift over time as the economy of a less developed market develops?, and (3) What retail strategy components can be used to address each of the different behaviors and needs?

The insights from answers to these questions can also guide the understanding of the competitive retail structures in less developed markets, where perhaps not all retailers may choose to compete for a share of the market in every one of the market segments. Thus, an additional promising avenue for future research is to analytically and empirically study the competitive implications of wide dispersion in respect of price sensitivity and location based accessibility in less developed markets. For example, are there conditions under which the existing large number of very small, locationally separated retailers is sustainable, or is consolidation an inevitable consequence as the economic structures of these markets develop?

While research by Ahlert, But and Evanschitzky (2010) sheds some light into this question, there is a need for more analyses of time-series data from different countries to better understand the dynamics of the retail industry structure in less developed markets. The organizational and environmental contingencies under which retailers should tailor differently branded channels to reach different population segments versus develop one common retail brand to reach all population segments (income groups) constitutes an avenue for future research.

From a more public policy-oriented research perspective, there is a need for research focusing on critical factors that facilitate access to the retail process for the poorest segments of the population. For example, if subsidized offers are targeted at the poorest segments in the market, will this hinder innovation in the market targeted at these segments, and adversely impact retail accessibility in the long run? Such market responses to subsidized retailing could potentially also be highly context/country dependent, which further points to potential avenues for future research into the process of innovation for retailing in less developed countries.

More generally, research questions grounded in mid-range theories that recognize and explicate the moderating effects of organizational and environmental contingencies on the relationship between retailing innovation and performance constitute an avenue for future research. Illustrative of the relevance of organizational and environmental contingencies is the following: retailing innovations of Type A (multiple store formats versus single store format), pursued by retailers of Type B (non-domestic retail entrant from mature market versus entrenched domestic retailer), under market structure conditions of Type C (mature market versus emerging market versus less developed market), will lead to performance of Type D (superior versus poor performance).

Conclusion

As the scope of retailing further expands and more retail firms globalize, they face new challenges. Innovations in retailing are an imperative in order to transform these challenges into opportunities and successfully compete, particularly in mature markets and less developed markets. Against this backdrop, in this paper, we explore (1) consumer based, (2) industry based, and (3) legal/regulatory based challenges and opportunities that mature markets, emerging markets and less developed markets present to retailers and the associated innovation challenges.

References


